

**THE OFFICE OF REGULATORY STAFF  
SURREBUTTAL TESTIMONY & EXHIBITS**

**OF**

**AISHA L. BUTLER**

**JANUARY 12, 2018**



**DOCKET NO. 2017-228-S**

**Application of Palmetto Utilities, Incorporated for  
Adjustment of Rates and Charges for Customers in the  
Palmetto Utilities and Palmetto of Richland County Service  
Areas**

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**SURREBUTTAL TESTIMONY OF**  
**AISHA L. BUTLER**  
**ON BEHALF OF**  
**THE OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2017-228-S**  
**IN RE: APPLICATION OF PALMETTO UTILITIES, INCORPORATED FOR**  
**ADJUSTMENT OF RATES AND CHARGES FOR CUSTOMERS IN THE**  
**PALMETTO UTILITIES AND PALMETTO OF RICHLAND COUNTY SERVICE**  
**AREAS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

**A.** My name is Aisha L. Butler. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Audit Department as a Senior Auditor.

**Q. ARE YOU THE SAME AISHA BUTLER WHO PRESENTED DIRECT TESTIMONY IN THIS DOCKET?**

**A.** Yes, I pre-filed direct testimony reflecting ORS findings in this proceeding on December 14, 2017.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

**A.** The purpose of my surrebuttal testimony is to discuss the issues ORS encountered while performing the audit and respond to certain issues raised in the rebuttal testimony of Palmetto Utilities, Incorporated (“PUI” or “Company”) witness

1 Mark Daday including the adjustments to purchased power, management fees, rate  
2 case expenses, the corporate overhead allocation, property tax, the City of Columbia  
3 wastewater treatment deferral, and interest synchronization. My surrebuttal  
4 testimony will also address the amounts referenced by Mr. Daday relating to the  
5 Crabapple Lane project and land acquisition in his discussion of the non-recognition  
6 of an extraordinary retirement allowance. The impact of the Tax Cuts and Jobs Act  
7 on this rate case will also be discussed in my surrebuttal testimony.

8 **Q. PLEASE DESCRIBE ANY ISSUES THAT ORS ENCOUNTERED WHILE**  
9 **PERFORMING THIS AUDIT EXAMINATION.**

10 **A.** There were a number of issues ORS encountered while performing this  
11 examination. The largest issue being the Company providing support  
12 documentation in an untimely manner. Due to the Company's timing of the filing,  
13 they proposed several adjustments that were based on estimates. It is ORS's  
14 position that utilities should only be eligible to recover known and measurable  
15 expenses which are supported by actual invoices. The Company did not provide  
16 invoices supporting increases for some of the expenses until well after ORS's direct  
17 testimony had been filed.

18 Another issue that ORS encountered while performing this examination  
19 involves the allocation of expenses related to the Company's corporate  
20 headquarters and customer service buildings. These 2 buildings service other Ni  
21 Pacolet companies in addition to PUI. During the last PUI rate case (Docket No.  
22 2013-42-S), ORS identified expenses and plant items related to the corporate  
23 headquarters and customer service buildings that should have been allocated but

1           were instead being booked directly to PUI. Again, in the current case, the Company  
2           only proposed an allocation of rent expense associated with the customer service  
3           building and failed to allocate or propose an allocation for any other expenses  
4           related to the two buildings. Some of those expenses include purchased water,  
5           purchased power, telephone, internet, office supplies, office maintenance, and  
6           technical support fees. Some of the plant items that needed to be allocated include  
7           office furniture, an AC Unit, a vehicle, and network upgrades.

8       **Q.   WHAT IS ORS'S POSITION REGARDING THE PURCHASED POWER**  
9       **ADJUSTMENT UPDATE PROPOSED BY MR. DADAY IN HIS**  
10       **REBUTTAL TESTIMONY?**

11      **A.**           Subsequent to the filing of ORS's direct testimony, the Company provided  
12           a more recent set of invoices reflecting the purchased power expenses from  
13           November 2017 to December 2017. After removing nonallowable expenses and  
14           allocable expenses, ORS calculated annualized allowable expenses totaling  
15           \$1,120,308. This amount less the \$768,277 per book amount results in an updated  
16           adjustment of \$352,031 which is reflected in ORS's Audit Surrebuttal Exhibits.

17      **Q.   WHAT IS ORS'S POSITION REGARDING THE MANAGEMENT FEE**  
18       **ADJUSTMENT UPDATE PROPOSED BY MR. DADAY IN HIS**  
19       **REBUTTAL TESTIMONY?**

20      **A.**           ORS originally proposed not to adjust management fees as the new contract  
21           amendment with ESG Operations, Inc. ("ESG") had not yet been signed and the  
22           contract increase, effective January 2018, had not yet been negotiated. The  
23           Company originally requested an adjustment based on an estimated 2.75% increase.

1           However, subsequent to ORS's filing of direct testimony, the Company provided a  
2           signed amendment to the contract reflecting a 2% negotiated increase. ORS agrees  
3           that the Company's proposed 2% increase would result in an additional \$41,347 in  
4           management fees. This updated adjustment is reflected in ORS's Audit Surrebuttal  
5           Exhibits.

6           ORS does not agree with the Company's proposal to add \$42,000 associated  
7           with the salary of an additional belt press operator. The Company did not propose  
8           to include this additional position in its filed application nor has the Company  
9           provided any support documentation to ORS proving that this newly created  
10          position has been filled. Therefore, ORS does not consider this additional proposed  
11          expense to be known and measurable.

12   **Q.   WHAT IS ORS'S POSITION REGARDING THE UPDATED RATE CASE**  
13   **EXPENSES PUT FORTH BY MR. DADAY IN HIS REBUTTAL**  
14   **TESTIMONY?**

15   **A.**Subsequent to ORS's established cutoff date of November 16, 2017 ("cutoff  
16                  date") the Company provided additional rate case expenses. ORS has reviewed the  
17                  invoices and supports an additional \$66,049 in allowable rate case expenses.  
18                  Subsequent to ORS's filing of direct testimony, the Company provided updated  
19                  support documentation for an additional \$44,550 of rate case expense originally  
20                  disallowed by ORS due to the invoice not sufficiently detailing the work performed  
21                  by the vendor. Upon review, ORS deemed the updated support documentation to  
22                  be sufficient and has updated the rate case expense adjustment to include this  
23                  expense in addition to the \$66,049 of additional rate case expenses provided by the

1 Company. ORS also does not object to the Company's proposal to reduce the  
2 amortization period for rate case expenses from 5 years to 3 years. The updated  
3 total of \$202,257 in rate case expenses amortized over 3 years less the per book  
4 amount of \$34,959 yields an ORS adjustment of \$32,460. This updated adjustment  
5 is reflected in the Audit Surrebuttal Exhibits.

6 ORS recognizes that the Company will continue to incur expenses up to and  
7 through the hearing. ORS does not object to an additional update to rate case  
8 expenses subject to ORS verification.

9 **Q. WHAT IS ORS'S POSITION REGARDING THE DISALLOWED**  
10 **CAPITALIZED LABOR AND CONTRACT ISSUE RAISED BY MR.**  
11 **DADAY IN HIS REBUTTAL TESTIMONY?**

12 **A.** Mr. Daday proposes to include the portion of capitalized labor and ESG  
13 Operations, Inc. contract ("contract") disallowed from proforma plant, in with the  
14 miscellaneous overhead expense to be allocated as a part of the ORS adjustment  
15 3L. ORS adjustment 3L allocates overhead expenses incurred during the 12 months  
16 ending March 31, 2017 ("test year"). The amount of capitalized labor and contract  
17 ORS disallowed was included by the Company as a part of its proposed proforma  
18 plant. Proforma plant additions occur outside of the test year. If ORS included the  
19 portion of disallowed proforma capitalized labor and contract in the miscellaneous  
20 test year overhead expenses to be allocated, ORS would be including more than  
21 100% of the Company's capitalized labor and contract amount for the test year.  
22 Therefore, ORS does not propose to include the disallowed proforma capitalized  
23 labor and contract in overhead expenses.

1   **Q.     HOW DID ORS CALCULATE THE AMOUNT OF CAPITALIZED LABOR**  
2   **AND CONTRACT TO DISALLOW FROM PROFORMA PLANT?**

3   **A.**       The Company's property records through the end of the test year showed  
4       the portion of the monthly capitalized labor and contract amounts allocated to  
5       individual plant items. However, the Company did not allocate the monthly  
6       proforma capitalized labor and contract amounts to specific proforma plant items.  
7       In order to assign an amount of capitalized labor and contract to the nonallowable  
8       proforma plant items, ORS applied the percentage of nonallowables in each of the  
9       Company's proposed proforma plant schedules to the total proposed proforma  
10      capitalized labor and contract amount included in each schedule. As a result, ORS  
11      proposed to remove a total of \$125,078 of capitalized labor and contract from  
12      proforma plant. The capitalized labor and contract amounts were assigned a 30 year  
13      useful life by the ORS Utility Rates Department which results in a disallowance of  
14      \$4,169 of depreciation expense associated with the proforma capitalized labor and  
15      contract amounts proposed by the Company.

16   **Q.     WHAT IS ORS'S POSITION REGARDING THE PROPOSED CHANGE IN**  
17   **ALLOCATION OF THE TAP FEE COORDINATOR SALARY AND**  
18   **INCLUSION OF PREVIOUSLY DISALLOWED TANGIBL EXPENSES IN**  
19   **THE CALCULATION OF ORS ADJUSTMENT 3L?**

20   **A.**       ORS agrees with the Company's proposal that the salary of the Tap Fee  
21       Coordinator should only be allocated to PUI. ORS has adjusted its original  
22       calculation of adjustment 3L to include this change which results in an additional  
23       overhead expense of \$9,900.

1 In direct testimony ORS originally disallowed \$45,000 in Tangibl Group,  
2 Inc. ("Tangibl") expenses due to a lack of detail of the work performed by the  
3 vendor and/or services being performed outside the test year. On Monday, January  
4 8, 2018, the Company provided ORS with updated support documentation for  
5 expenses related to work performed by Tangibl. Upon review, ORS determined the  
6 updated support documentation provided for \$30,000 of the \$45,000 of Tangibl  
7 expenses to be sufficient and has updated the miscellaneous overhead allocation  
8 adjustment to include this expense. The remaining \$15,000 not included by ORS  
9 was for services performed outside of the test year. Inclusion of the allowable  
10 Tangibl expenses results in additional overhead expenses of \$21,652 for PUI. The  
11 change in allocation of the Tap Fee Coordinator salary and the inclusion of the  
12 updated Tangibl expenses results in a total additional overhead expense of \$31,552.  
13 This brings ORS's total adjustment 3L to \$2,321,474, which is reflected in ORS's  
14 Audit Surrebuttal Exhibits.

15 **Q. WHAT IS ORS'S POSITION REGARDING THE PROPERTY TAX ISSUES**  
16 **RAISED BY MR. DADAY IN HIS REBUTTAL TESTIMONY?**

17 **A.** ORS agrees with the Company's proposed change to the calculation of  
18 property taxes. The accumulated amortization of contributions in aid of  
19 construction ("CIAC") should be included in the net plant calculation used in the  
20 computation of ORS's property tax adjustment. ORS has updated the property tax  
21 adjustment to include the amortization of CIAC in the net plant calculation. This  
22 results in a \$754,350 increase to ORS's original property tax adjustment which is  
23 reflected in ORS's Audit Surrebuttal Exhibits.



1     **Q.     WHAT IS ORS'S POSITION REGARDING THE UPDATE TO THE CITY**  
2     **OF COLUMBIA WASTEWATER TREATMENT DEFERRAL MR. DADAY**  
3     **PROPOSES IN HIS REBUTTAL TESTIMONY?**

4     **A.**           ORS's original adjustment accounted for actual expenses through part of  
5     August 2017 which was the most recent invoice provided by the Company as of the  
6     ORS cutoff date. Subsequent to the filing of ORS's direct testimony, the Company  
7     provided 3 additional City of Columbia invoices for wastewater treatment through  
8     part of October 2017. The inclusion of these invoices results in an additional  
9     deferral amount of \$380,689 which brings the total updated deferral amount to  
10    \$3,903,594. This amount, amortized over 7 years, results in an adjustment of  
11    \$557,656. ORS Witness Willie Morgan addresses the calculation of the base  
12    wastewater treatment costs billed by the City of Columbia in his surrebuttal  
13    testimony.

14    **Q.     DOES ORS AGREE WITH THE AMOUNTS PUT FORTH IN MR.**  
15    **DADAY'S REBUTTAL TESTIMONY IN RELATION TO THE REMOVAL**  
16    **OF THE CRABAPPLE LANE PROJECT AND CRABAPPLE LANE LAND**  
17    **ACQUISITION?**

18    **A.**           ORS agrees with the total amount of Crabapple Lane related costs removed  
19    from plant as stated in Mr. Daday's surrebuttal testimony. Per recommendation of  
20    the Utility Rates Department, ORS removed \$217,119 in plant related to the  
21    Crabapple Lane project and \$200,063 for the adjoining land acquisition totaling  
22    \$417,182. The accumulated depreciation corresponding to the Crabapple Lane  
23    project as of December 31, 2017 was \$6,835 resulting in a net amount of \$210,284.

1 The \$210,284 net value of the Crabapple Lane project plus the \$200,063 value of  
2 the adjoining land acquisition totals \$410,347 of net plant removed by ORS.

3 **Q. PLEASE EXPLAIN HOW THE TAX CUTS AND JOBS ACT IMPACTS**  
4 **THIS RATE CASE.**

5 **A.** Subsequent to the filing of ORS's direct testimony, the Tax Cuts and Jobs  
6 Act was passed. For the purposes of this rate case, the act lowers the federal  
7 corporate income tax rate to 21%. ORS has updated the federal tax rate from the  
8 34% proposed by the Company in its application to the 21%. This change is  
9 reflected in the calculation of federal and state income taxes in Audit Surrebuttal  
10 Exhibit ALB-4.

11 The change in the federal corporate income tax rate also changes the balance  
12 in the Company's accumulated deferred income tax account. The accumulated  
13 deferred income tax ("ADIT") account is a reserve account to which a utility books  
14 the differences between depreciation expense resulting from the use of straight line  
15 depreciation for book purposes and accelerated depreciation for tax purposes. For  
16 the purposes of regulatory accounting, a liability balance in a reserve ADIT account  
17 is treated as a reduction to rate base. Per the Company, the restated test year ending  
18 balance in its ADIT account, reflective of the 21% federal corporate tax rate is  
19 (\$1,670,926). This results in an adjustment of \$1,034,383 to the Company's  
20 original (\$2,705,309) ADIT per book amount.

21 As part of the Company's application, it proposed to adjust its deferred  
22 income taxes to reflect its proposed proforma plant additions. In order to calculate  
23 its proposed adjustment, the Company calculated the difference in depreciation

1 between accelerated tax depreciation and straight line book depreciation of  
2 proforma plant. The Company then applied a composite tax rate of 37.3% to the  
3 difference in depreciation.

4 For the purposes of regulatory accounting, ORS zeroed out the deferred  
5 income tax account in adjustment 6C, and included the balance in the reserve ADIT  
6 account in rate base. For the purposes of surrebuttal, ORS calculated its adjustment  
7 to ADIT for proforma plant using the Company's proposed methodology updated  
8 to reflect ORS's calculated proforma plant and a composite tax rate of 24.95%. The  
9 composite tax rate of 24.95% reflects the new 21% federal corporate income tax  
10 rate as established by the Tax Cuts and Jobs Act. This resulted in an adjustment to  
11 ADIT of (\$386,616), and when netted with the \$1,034,383 adjustment made to  
12 reflect the Company's restated ADIT per book amount, yields an ORS adjustment  
13 to ADIT of \$647,767. This adjustment is reflected in the computation of rate base  
14 used in the calculation of synchronized interest expense in Audit Surrebuttal  
15 Exhibit ALB-5.

16 ORS recognizes there are other components of the Tax Cuts and Jobs Act.  
17 For the purposes of this rate case, ORS has only accounted for the change in the  
18 federal corporate income tax rate. ORS reserves the right to implement other  
19 components of the Tax Cuts and Jobs Act in future rate case proceedings once a  
20 more thorough review of the act has been performed by ORS.

21 **Q. PLEASE EXPLAIN THE CALCULATION OF ORS'S INTEREST**  
22 **EXPENSE ADJUSTMENT IN AUDIT SURREBUTTAL EXHIBIT ALB-5.**

1     **A.**           ORS used interest synchronization to calculate the interest expense  
2           adjustment in Audit Surrebuttal Exhibit ALB-5. This method allows a utility to  
3           recover financing costs by synchronizing its interest expense with the debt portion  
4           of its rate base. This method prevents a utility from recovering from ratepayers  
5           interest on funds borrowed for reasons other than financing rate base related costs.

6           ORS's proposed interest expense adjustment is calculated using a total rate  
7           base of \$81,703,849, a 45% debt and 55% equity capital structure, and a 4.84%  
8           weighted average cost of debt. ORS applied the weighted average cost of debt to 45%  
9           of the Company's rate base to generate the Company's synchronized interest  
10          expense. ORS then subtracted the Company's per book interest expense yielding an  
11          adjustment of (\$365,764). ORS witness Douglas Carlisle further discusses the capital  
12          structure and weighted average cost of debt in his surrebuttal testimony.

13    **Q.    HAS THIS METHOD OF CALCULATING INTEREST EXPENSE BEEN**  
14    **APPROVED BY THE PUBLIC SERVICE COMMISSION OF SOUTH**  
15    **CAROLINA ("PSC" OR "COMMISSION") IN THE PAST?**

16    **A.**           Yes. It is important to note that at one time the Commission did not allow  
17          water and sewer utilities to include interest expense in the calculation of operating  
18          margin. In Order No. 92-84 issued by the PSC in the Midlands Utility, Inc. rate  
19          case (Docket No. 90-528-S) it states, "The Commission adopts the Staff's  
20          recommendation to synchronize the Company's annualized interest expense to the  
21          debt portion of its rate base. Unlike its prior practice of prohibiting a water and/or  
22          sewer utility from recovering any interest expense from its ratepayers, the  
23          Commission concludes that interest synchronization equitably allocates interest

1 expense between investor and ratepayers.” The order also sites previous water and  
2 sewer proceedings in which the PSC had approved interest synchronization  
3 including “Carolina Water Service, Inc., Wild Dunes Inc., Woodland Utilities, Inc.,  
4 Heater of Seabrook, Inc., Heater Utilities, Inc. and Lake Moultrie Water Company.”  
5 The order goes on to state that, “whether a utility’s debt is more or less than its rate  
6 base is irrelevant to interest synchronization. The relevant consideration in the  
7 determination of interest synchronization is whether the debt incurred by a utility  
8 is reflected as an investment in its rate base.”

9 ORS has used interest synchronization to calculate the interest expense  
10 adjustment in water and wastewater operating margin rate cases including the  
11 recent Kiawah Island Utility, Inc. (Docket No. 2016-222-WS) and Harbor Island  
12 Utilities, Inc. (Docket No. 2016-29-WS) rate cases which were approved and  
13 ordered by the PSC.

14 **Q. PLEASE EXPLAIN HOW ORS’S INTEREST EXPENSE ADJUSTMENT**  
15 **WAS CALCULATED IN THE LAST PUI RATE CASE?**

16 **A.** ORS used interest synchronization to calculate the interest expense  
17 adjustment in the last PUI rate case (Docket No. 2013-42-S).

18 **Q. OTHER THAN THE ADJUSTMENTS TO ADIT, WERE THERE ANY**  
19 **OTHER CHANGES MADE TO THE CALCULATION OF ORS’S**  
20 **INTEREST EXPENSE ADJUSTMENT?**

21 **A.** Yes. Due to the increases in operating expenses included by ORS, rate base  
22 was increased due to cash working capital. Also, the incorrect per book interest  
23 expense was used in the calculation of adjustment 8 filed in my direct testimony. The

1           Company's total per book interest expense is comprised of two parts: interest on long  
2           term debt and amortization of debt discount and expense. In ORS's adjustment of  
3           interest expense in direct testimony only the long term debt portion was used as the  
4           per book amount inadvertently. The amortization of debt discount and expense was  
5           included and accounted for as part of the weighted average cost of debt rate of 4.84%.  
6           The total per book interest expense amount should be subtracted from the  
7           synchronized interest expense to compute the adjustment amount. This has been  
8           corrected and is reflected in Audit Surrebuttal Exhibit ALB-5.

9   **Q.       DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A.           Yes.**

**Palmetto Utilities, Inc.**  
**Docket No. 2017-228-S**  
**Operating Experience & Operating Margin**  
**For the Test Year Ended March 31, 2017**  
**Wastewater Operations**

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<b><u>Utility Operating Revenues:</u></b>					
Wastewater Sales Revenues	14,874,059	184,101 (1)	15,058,160	11,138,505 (10)	26,196,665
Other Wastewater Revenues	1,382,353	0 (2)	1,382,353	(431,038) (11)	951,315
<b><u>Total Utility Operating Revenues</u></b>	<u>16,256,412</u>	<u>184,101</u>	<u>16,440,513</u>	<u>10,707,467</u>	<u>27,147,980</u>
<b><u>Utility Operating Expenses:</u></b>					
Operating Expenses	5,913,958	1,924,685 (3)	7,838,643	267,687 (12)	8,106,330
Depreciation and Amortization	1,637,601	1,580,752 (4)	3,218,353	0	3,218,353
Taxes Other Than Income Taxes	534,626	2,520,612 (5)	3,055,238	56,125 (13)	3,111,363
Income Taxes	2,918,256	(2,781,338) (6)	136,918	2,590,722 (14)	2,727,640
<b><u>Total Utility Operating Expenses</u></b>	<u>11,004,441</u>	<u>3,244,711</u>	<u>14,249,152</u>	<u>2,914,534</u>	<u>17,163,686</u>
<b><u>Total Net Utility Operating Income (Loss)</u></b>	<u>5,251,971</u>	<u>(3,060,610)</u>	<u>2,191,361</u>	<u>7,792,933</u>	<u>9,984,294</u>
Other Income and Deductions	(1,272,663)	1,272,663 (7)	0	0	0
Less: Interest Expense	2,145,274	(365,764) (8)	1,779,510	0	1,779,510
Add: Customer Growth	0	41,667 (9)	41,667	148,174 (15)	189,841
<b><u>Net Income for Margin</u></b>	<u>4,379,360</u>	<u>(3,925,842)</u>	<u>453,518</u>	<u>7,941,107</u>	<u>8,394,623</u>
<b><u>Operating Margin</u></b>	<u>26.94%</u>		<u>2.76%</u>		<u>30.92%</u>

**Palmetto Utilities, Inc. Docket No. 2017-228-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2017**

ORS	PUI		Sewer Operations	
Adj. #	Adj. #	Description	ORS	PUI
<u>Accounting and Pro forma Adjustments</u>				
(1)	(18)	<u>Wastewater Sales Revenues</u> To adjust sales revenues to reflect the present rates as calculated by the ORS Utility Rates Department.	\$ 184,101	\$ (33,050)
(2)	(19)	<u>Other Wastewater Revenues</u> & To adjust commercial revenues to reflect the present rates as calculated		
(20)		by the ORS Utility Rates Department.	\$ 0	\$ (522,890)
(3)		<u>Operating Expenses</u>		
(3A)	(8)	To adjust purchased wastewater expense to include the amortization of deferred City of Columbia wastewater treatment costs.	\$ 557,656	\$ 511,775
(3B)	(9)	To adjust purchased wastewater treatment to reflect the elimination of City of Columbia billing for wastewater treatment.	(927,258)	(927,258)
(3C)	(5)	To adjust sludge removal expense based on the increase in flow at the wastewater treatment plant.	1,614	159,929
(3D)	(2)	To adjust purchased power expense to reflect the increase in electricity usage related to the new lift stations.	352,031	524,939
(3E)	(3)	To adjust chemical expense to reflect the increase of flow at the wastewater treatment plant.	0	55,830
(3F)	(21)	To adjust contract services related to management fees.	41,347	56,503
(3G)	(4)	To adjust contract services related to testing to reflect the increase in cost per service provider estimates.	0	5,042
(3H)	(9)	To adjust other contract services to reflect the elimination of City of Columbia billing for meter reading.	(69,192)	(69,192)
(3I)	(6)	To adjust rent expense to reflect a reduction in rent for the portion allocated to Alpine, Woodlands, and Ni Florida. ORS has included rent expense along with other expenses directly booked to PUI in the calculation of Adjustment 3L, the allocation of corporate overhead expenses.	0	(8,384)
(3J)	(7)	To adjust amortization of rate case expenses.	32,460	45,693
(3K)	(11)	To adjust bad debt expense using a 2.5% bad debt percentage. The percentage was provided by the ORS Utility Rates Department.	1,902	(2,701)



**Palmetto Utilities, Inc. Docket No. 2017-228-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2017**

Adj. #	PUI Adj. #	Description	Sewer Operations	
			ORS	PUI
(3L)	(15)	To adjust miscellaneous expenses to include allocated corporate overhead, rent expense, and other expenses directly booked to PUI that need to be allocated.	2,321,474	2,378,220
(3M)	-	To remove nonallowable expenses.	(222,673)	0
(3N)	-	To reclass expenses directly booked to PUI related to the main office and customer service buildings to corporate overhead expenses to be allocated (ORS Adjustment 3L).	(137,873)	0
(3O)		To remove expenses that should be capitalized.	(26,803)	0
(3)		<b><u>Total Operating Expenses</u></b>	<b>\$ 1,924,685</b>	<b>\$ 2,730,396</b>
(4)		<b><u>Depreciation and Amortization</u></b>		
(4A)	(10)	To adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service.	\$ 1,502,211	\$ 2,461,543
(4B)	(10)	To adjust amortization of CIAC.	78,541	114,362
(4)		<b><u>Total Depreciation and Amortization</u></b>	<b>\$ 1,580,752</b>	<b>\$ 2,575,905</b>
(5)		<b><u>Taxes Other Than Income</u></b>		
(5A)		To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a factor of 0.005241690.	\$ (2,212)	\$ 0
(5B)	(1)	To adjust property taxes to reflect new capital expenditures and adjusted plant in service.	2,522,824	2,625,233
(5)		<b><u>Total Taxes Other Than Income</u></b>	<b>\$ 2,520,612</b>	<b>\$ 2,625,233</b>
(6)		<b><u>Income Taxes</u></b>		
(6A)	(14)	To adjust federal income taxes on proforma income at 21%.	\$ (1,680,888)	\$ (4,335,227)
(6B)	(13)	To adjust state income taxes on proforma income at 5%.	(226,772)	(648,151)
(6C)	(22)	To exclude deferred income taxes from the proforma revenue requirement.	(873,678)	543,236
(6)		<b><u>Total Income Taxes</u></b>	<b>\$ (2,781,338)</b>	<b>\$ (4,440,142)</b>
(7)		<b><u>Other Income and Deductions</u></b>		
(7A)	(16)	To reverse losses on disposition of property.	\$ (24,084)	\$ (24,084)

**Audit Surrebuttal Exhibit ALB-2**  
**Palmetto Utilities, Inc. Docket No. 2017-228-S**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2017**

Page 3 of 3

Adj. #	PUI Adj. #	Description	Sewer Operations	
			ORS	PUI
(7B)	(17)	To exclude AFUDC from the pro-forma revenue requirement.	1,296,747	1,296,747
(7)		<b><u>Total Other Income and Deductions</u></b>	\$ <u>1,272,663</u>	\$ <u>1,272,663</u>
(8)	(12)	<b><u>Interest Expense</u></b> To synchronize interest expense with the portion of rate base financed by debt.	\$ <u>(365,764)</u>	\$ <u>1,617,604</u>
(9)	-	<b><u>Customer Growth</u></b> To adjust for customer growth based on the total net utility operating income after accounting and proforma adjustments. The customer growth factor is 1.90140%.	\$ <u>41,667</u>	\$ <u>0</u>
<b><u>Proposed Increase</u></b>				
(10)	(23)	<b><u>Wastewater Sales Revenues</u></b> To adjust sales revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ <u>11,138,505</u>	\$ <u>11,392,065</u>
(11)	-	<b><u>Other Wastewater Revenues</u></b> To adjust commercial revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ <u>(431,038)</u>	\$ <u>0</u>
(12)	(24)	<b><u>Operating Expenses</u></b> To adjust bad debt expense using a 2.5% bad debt percentage. The percentage was provided by the ORS Utility Rates Department.	\$ <u>267,687</u>	\$ <u>284,802</u>
(13)	(25)	<b><u>Taxes Other Than Income</u></b> To adjust utility regulatory assessment fees after the proposed increase adjustments using a factor of 0.005241690.	\$ <u>56,125</u>	\$ <u>61,517</u>
(14)		<b><u>Income Taxes</u></b>		
(14A)	(27)	To adjust federal income taxes on the proposed increase income at 21%.	\$ 2,071,539	\$ 3,567,776
(14B)	(26)	To adjust state income taxes on the proposed increase income at 5%.	519,183	552,287
(14)		<b><u>Total Income Taxes</u></b>	\$ <u>2,590,722</u>	\$ <u>4,120,063</u>
(15)	-	<b><u>Customer Growth Adjustment</u></b> To adjust for customer growth based on the total net utility operating income after the proposed increase. The customer growth factor is 1.90140%.	\$ <u>148,174</u>	\$ <u>0</u>

Palmetto Utilities, Inc.  
Docket No. 2017-228-S  
Computation of Depreciation and Amortization Expense  
For the Test Year Ended March 31, 2017

Account Description	1 PUI Filed Per Book Plant in Service at 3/31/17	2 PUI Per Book Adjustments	3 PUI Adjusted Per Book Plant in Service at 3/31/17	4 ORS Fully Depreciated Adjustments	5 ORS Nonallowables from Last Case	6 ORS Current Nonallowables	7 ORS Capitalized Expenses	8 ORS Proforma Plant at 11/16/2017	9 ORS Proforma Retirements at 11/16/17	10 ORS Plant in Service at 11/16/2017	11 Service Life	12 Depreciation Expense
1 Plant in Service	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		\$
2												
3												
4 Collection System												
5												
6 Account 360.2 Collection Sewers - Force												
7 PVC - 4" to 30" - Fully Depreciated	22,097	-	22,097	-	-	(22,097)	-	-	-	-	FD	FD
8 PVC - 4" to 30"	4,264,586	9,748	4,274,334	-	-	(111,629)	-	58,606	-	4,321,311	30	140,710
9 DIP - 4" to 30"	442,033	-	442,033	-	-	(293,424)	-	-	-	148,609	30	4,954
10 Air Release Manholes	99,816	-	99,816	-	-	-	-	-	-	99,816	30	3,327
11 Total Account 360.2	4,828,532	9,748	4,838,280	-	-	(427,150)	-	58,606	-	4,469,736		148,991
12												
13 Account 361.2 Collection Sewers - Gravity												
14 PVC - 4" to 30" - Fully Depreciated	40,068	-	40,068	-	-	(40,068)	-	-	-	-	FD	FD
15 PVC - 4" to 30"	41,415,556	(503,937)	40,911,619	-	-	(16,107,385)	-	30,844,795	-	55,649,029	45	1,236,645
16 DIP - 8" to 24"	2,470,840	177,339	2,648,179	-	-	(830,612)	-	-	-	1,817,567	45	40,390
17 Manholes - Fully Depreciated	275,507	-	275,507	123,702	-	(399,209)	-	-	-	-	FD	FD
18 Manholes	18,478,651	170,005	18,648,656	(123,702)	-	(7,667,065)	-	10,633	-	10,868,522	30	362,284
19 Total Account 361.2	62,680,622	(156,593)	62,524,029	-	-	(25,044,339)	-	30,855,428	-	68,335,118		1,639,319
20												
21 Account 363.2 Services to Customers												
22 Services - Fully Depreciated	18,455	-	18,455	33,717	-	(52,172)	-	-	-	-	FD	FD
23 Services	4,907,585	9,373	4,916,958	(33,717)	(4,234)	(2,589,994)	1,740	12,456	-	2,303,209	38	60,611
24 Elder Valves	1,657,951	29,695	1,687,646	-	-	-	-	-	-	1,687,646	38	44,412
25 Grease Traps	13,015	530	13,545	-	-	-	-	-	-	13,545	38	356
26 Total Account 363.2	6,597,006	39,598	6,636,604	-	(4,234)	(2,642,166)	1,740	12,456	-	4,004,400		105,379
27												
28 Account 364.2, Flow Measuring Devices	43,856	-	43,856	-	-	-	-	-	-	43,856	5	8,771
29												
30 Total Collection Plant	74,150,016	(107,247)	74,042,769	-	(4,234)	(28,113,655)	1,740	30,926,490	-	76,853,110		1,902,460
31												
32 Pumping Plant												
33 Account 354.3 Structures and Improvements - Fully Depreciated	194,623	-	194,623	49,822	-	(244,445)	-	-	-	-	FD	FD
34 Account 354.3 Structures and Improvements	3,752,683	-	3,752,683	(49,822)	-	(302,952)	-	4,478,460	(183,936)	7,694,433	32	240,451
35 Account 371.3 Pumping Equipment - Fully Depreciated	-	-	-	1,597,752	-	(682,347)	-	-	-	915,405	FD	FD
36 Account 371.3 Pumping Equipment	8,847,339	22,301	8,869,640	(1,597,752)	-	(847,828)	-	72,332	(544,172)	5,952,220	18	329,675
37												
38 Total Pumping Plant	12,794,645	22,301	12,816,946	-	-	(2,077,572)	-	4,550,792	(728,108)	14,562,058		570,126
39												
40 Treatment and Disposal Plant												
41												
42 Account 353.4 Land and Land Rights	691,324	(262,599)	428,725	-	-	-	-	-	-	428,725	N/D	-
43 Account 354.4 Structures and Improvements	1,505,923	17,737	1,523,660	-	-	-	18,656	11,741	-	1,554,057	32	48,564
44 Account 355.4 Power Generating Equipment	533,941	(73)	533,868	-	-	-	-	-	-	533,868	20	26,693
45 Account 371.4 Pumping Equipment - Fully Depreciated	74,191	-	74,191	250,245	-	-	-	-	-	324,436	FD	FD
46 Account 371.4 Pumping Equipment	655,348	-	655,348	(250,245)	-	-	-	-	-	405,103	18	21,963
47 Account 380.4 Treat. and Disp. - Fully Depreciated	115,158	-	115,158	1,523,809	-	-	-	-	-	1,638,967	FD	FD
48 Account 380.4 Treatment and Disposal Equipment	10,244,686	1,383	10,246,069	(1,523,809)	-	(136,668)	-	15,719,191	-	24,304,783	18	1,348,187
49 Account 381.4 Plant Sewers	462,441	-	462,441	-	-	-	-	-	-	462,441	35	13,213
50 Account 382.4 Outfall Sewer Lines - Fully Depreciated	-	-	-	110,385	-	-	-	-	-	110,385	FD	FD
51 Account 382.4 Outfall Sewer Lines	1,670,359	-	1,670,359	(110,385)	-	-	4,692	19,522,188	-	21,086,854	30	702,895
52 Account 389.4 Other Plt and Misc. Eq. - Fully Depreciated	540,871	-	540,871	-	-	-	-	-	-	540,871	FD	FD
53 Account 389.4 Other Plant and Miscellaneous Equip.	1,159,051	-	1,159,051	-	-	-	-	-	-	1,159,051	18	64,392
54												
55 Total Treatment and Disposal Plant	17,653,293	(243,552)	17,409,741	-	-	(136,668)	23,348	35,253,120	-	52,549,541		2,225,907
56												
57 General Plant												
58												
59 Account 353.7 Land and Land Rights	1,331,796	262,599	1,594,395	-	-	(253,509)	-	7,277	-	1,348,163	N/D	-
60												
61 Account 354.7 Structures and Improvements												
62 Structures and Improvements	41,111	-	41,111	-	(8,270)	-	-	-	-	32,841	27	1,216
63 Structures and Improvements - 1710 Woodcreek	650,000	-	650,000	-	-	(180,869)	-	-	-	469,131	35	13,404
64 Leasehold Improvements - Other	138,928	-	138,928	-	(34,504)	(29,057)	1,238	-	-	76,605	22	3,482
65 Leasehold Improvements - Paving - Fully Depreciated	3,716	-	3,716	-	(3,716)	-	-	-	-	-	FD	FD
66												
67 Total Account 354.7	833,755	-	833,755	-	(46,490)	(209,926)	1,238	-	-	578,577		18,102

Palmetto Utilities, Inc.  
Docket No. 2017-228-S  
Computation of Depreciation and Amortization Expense  
For the Test Year Ended March 31, 2017

Account Description	1 PUI Filed Per Book Plant In Service at 3/31/17 \$	2 PUI Per Book Adjustments \$	3 PUI Adjusted Per Book Plant In Service at 3/31/17 \$	4 ORS Fully Depreciated Adjustments \$	5 ORS Nonallowables from Last Case \$	6 ORS Current Nonallowables \$	7 ORS Capitalized Expenses \$	8 ORS Proforma Plant at 11/16/2017 \$	9 ORS Proforma Retirements at 11/16/17 \$	10 ORS Plant in Service at 11/16/2017 \$	11 Service Life	12 Depreciation Expense \$
Account 390.7 Office Furniture and Equipment												
Furniture and Equipment - Fully Depreciated	-	-	-	20,307	-	-	-	-	-	20,307	FD	FD
Furniture and Equipment	66,367	-	66,367	(20,307)	(1,381)	(2,098)	-	-	-	42,581	15	2,775 *
Computers - Fully Depreciated	112,616	-	112,616	-	-	-	-	-	-	112,616	FD	FD
Computers	219,037	-	219,037	-	(1,500)	(9,062)	-	1,560	-	210,035	6	31,128 *
<b>Total Account 390.7</b>	<b>398,020</b>	<b>-</b>	<b>398,020</b>	<b>-</b>	<b>(2,881)</b>	<b>(11,160)</b>	<b>-</b>	<b>1,560</b>	<b>-</b>	<b>385,539</b>		<b>33,903</b>
Account 391.7 Transportation Equipment - Fully Depreciated	-	-	-	15,350	-	-	-	-	-	15,350	FD	FD
Account 391.7 Transportation Equipment	125,779	-	125,779	(15,350)	-	-	-	381,215	-	491,644	6	81,941
Account 392.7 Stores Equipment	3,171	-	3,171	-	-	-	-	-	-	3,171	18	176
Account 393.7 Tools, Shop and Garage Equip. - Fully Depreciated	-	-	-	14,160	-	-	-	-	-	14,160	FD	FD
Account 393.7 Tools, Shop and Garage Equipment	116,973	-	116,973	(14,160)	-	-	-	7,466	-	110,279	16	6,892
Account 394.7 Laboratory Equipment	20,193	-	20,193	-	-	-	-	2,436	-	22,629	15	1,509
Account 395.7 Power Operated Equipment	211,489	-	211,489	-	-	-	-	46,260	-	257,749	12	21,479
Account 396.7 Communication Equipment	53,680	(3,531)	50,149	-	(3,706)	-	-	52,531	-	98,974	10	9,897
Account 397.7 Miscellaneous Equipment	14,879	-	14,879	-	-	-	-	-	-	14,879	10	1,488
Account 398.7 Other Tangible Plant - Water Force Main	23,833	-	23,833	-	-	-	-	-	-	23,833	30	794
Account 398.7 Other Tangible Plant - Other	177,411	-	177,411	-	-	-	-	-	-	177,411	10	17,741
<b>Total General Plant</b>	<b>3,310,979</b>	<b>259,068</b>	<b>3,570,047</b>	<b>-</b>	<b>(53,077)</b>	<b>(474,595)</b>	<b>1,238</b>	<b>498,745</b>	<b>-</b>	<b>3,542,358</b>		<b>193,922</b>
<b>Total Plant in Service</b>	<b>107,908,933</b>	<b>(69,430)</b>	<b>107,839,503</b>	<b>-</b>	<b>(57,311) **</b>	<b>(30,802,490)</b>	<b>26,326</b>	<b>71,229,147</b>	<b>(728,108)</b>	<b>147,507,067</b>		<b>4,892,415</b>
											Per Book	<b>3,390,304</b>
											Adjustment 4A	<b>1,502,211</b>
											Accumulated Depreciation as of 12/31/17	<b>(32,929,140)</b>

Palmetto Utilities, Inc.  
Docket No. 2017-228-S  
Computation of Depreciation and Amortization Expense  
For the Test Year Ended March 31, 2017

Account Description	1 PUI Filed Per Book CIAC at 3/31/17	2 PUI Per Book Adjustments	3 PUI Adjusted Per Book CIAC at 3/31/17	4 ORS Fully Amortized Adjustments	5 ORS Current Nonallowables	6 ORS Proforma Retirements at 11/16/17	7 ORS CIAC In Service at 11/16/2017	8 Service Life	9 Amortization Expense
1 CIAC	\$	\$	\$	\$	\$	\$	\$		\$
2									
3 Collection System									
4									
5 Account 360.2 Collection Sewers - Force									
6 PVC - 4" to 30"	(2,866,155)	-	(2,866,155)	-	-	-	(2,866,155)	30	(95,539)
7 DIP - 4" to 30"	(131,213)	-	(131,213)	-	-	-	(131,213)	30	(4,374)
8 Air Release Manholes	(8,362)	-	(8,362)	-	-	-	(8,362)	30	(279)
9 Total Account 360.2	(3,005,730)	-	(3,005,730)	-	-	-	(3,005,730)		(100,192)
10									
11 Account 361.2 Collection Sewers - Gravity									
12 PVC - 4" to 30"	(19,520,545)	439,580	(19,080,965)	-	-	-	(19,080,965)	45	(424,021)
13 DIP - 8" to 24"	(1,629,970)	(177,339)	(1,807,309)	-	-	-	(1,807,309)	45	(40,162)
14 Manholes	(9,466,948)	(166,815)	(9,633,763)	-	-	-	(9,633,763)	30	(321,125)
15 Total Account 361.2	(30,617,463)	95,426	(30,522,037)	-	-	-	(30,522,037)		(785,308)
16									
17 Account 363.2 Services to Customers									
18 Services	(2,075,597)	(65,732)	(2,141,329)	-	-	-	(2,141,329)	38	(56,351)
19 Elder Valves	(1,543,546)	(29,694)	(1,573,240)	-	-	-	(1,573,240)	38	(41,401)
20 Grease Traps	(8,609)	-	(8,609)	-	-	-	(8,609)	38	(227)
21 Total Account 363.2	(3,627,752)	(95,426)	(3,723,178)	-	-	-	(3,723,178)		(97,979)
22									
23 Account 364.2, Flow Measuring Devices	(27,635)	-	(27,635)	-	-	-	(27,635)	5	(5,527)
24									
25 Total Collection Plant	(37,278,580)	-	(37,278,580)	-	-	-	(37,278,580)		(989,006)
26									
27 Pumping Plant									
28									
29 Account 354.3 Structures and Improvements	(3,092,289)	-	(3,092,289)	-	-	164,109	(2,928,180)	32	(91,506)
30 Account 371.3 Pumping Equipment - Fully Amortized	-	-	-	(798,493)	-	-	(798,493)	FA	FA
31 Account 371.3 Pumping Equipment	(4,923,009)	21,580	(4,901,429)	798,493	-	320,028	(3,782,908)	18	(209,216) *
32									
33 Total Pumping Plant	(8,015,298)	21,580	(7,993,718)	-	-	484,137	(7,509,581)		(300,722)
34									
35 Treatment and Disposal Plant									
36									
37 Account 353.4 Land and Land Rights	(222,033)	-	(222,033)	-	-	-	(222,033)	N/D	-
38 Account 354.4 Structures and Improvements	(793,474)	-	(793,474)	-	-	-	(793,474)	32	(24,796)
39 Account 355.4 Power Generating Equipment	(220,632)	2,758	(217,874)	-	-	-	(217,874)	20	(10,894)
40 Account 371.4 Pumping Equipment - Fully Amortized	(16,240)	-	(16,240)	(111,727)	-	-	(127,967)	FA	FA
41 Account 371.4 Pumping Equipment	(401,006)	-	(401,006)	111,727	-	-	(289,279)	18	(15,739) *
42 Account 380.4 Treatment and Disposal Equip. - Fully Amortized	-	-	-	(683,661)	-	-	(683,661)	FA	FA
43 Account 380.4 Treatment and Disposal Equipment	(5,708,046)	29,152	(5,678,894)	683,661	-	-	(4,995,233)	18	(276,189) *
44 Account 381.4 Plant Sewers	(333,087)	-	(333,087)	-	-	-	(333,087)	35	(9,517)
45 Account 382.4 Outfall Sewer Lines - Fully Amortized	-	-	-	(23,161)	-	-	(23,161)	FA	FA
46 Account 382.4 Outfall Sewer Lines	(275,382)	-	(275,382)	23,161	-	-	(252,221)	30	(8,407)
47 Account 389.4 Other Plant and Miscellaneous Equip. - Fully Amortized	-	-	-	(164,194)	-	-	(164,194)	FA	FA
48 Account 389.4 Other Plant and Miscellaneous Equip.	(862,441)	-	(862,441)	164,194	-	-	(698,247)	18	(38,792)
49									
50 Total Treatment and Disposal Plant	(8,832,341)	31,910	(8,800,431)	-	-	-	(8,800,431)		(384,334)
51									
52 General Plant									
53									
54 Account 353.7 Land and Land Rights	(105,731)	-	(105,731)	-	105,731	-	-	N/D	-
55									
56 Total Plant in Service - CIAC	(54,231,950)	53,490	(54,178,460)	-	105,731	484,137	(53,588,592)		(1,674,062)
57									
58 FA - Fully Amortized								Per Book	(1,752,603)
59 FD - Fully Depreciated								Adjustment 4B	78,541
60 N/D - Not Depreciated									
61 * - Will not calculate. Some assets in these categories do not have a full year worth of depreciation or amortization expense left.								Accumulated Amortization as of 12/31/17	21,792,228

\*\* - A \$22,000 vehicle was disallowed in the last rate case. The Company did not make the adjustments made in the last rate case, but this asset was returned by the Company. The total amount of nonallowables from the last rate case was \$79,311. (\$57,311+\$22,000)

## Audit Surrebuttal Exhibit ALB-4

**Palmetto Utilities, Inc. Docket No. 2017-228-S**  
**Computation of Income Taxes**  
**For the Test Year Ended March 31, 2017**

**After Accounting & Pro Forma Adjustments**

	\$ Wastewater Operations
Operating Revenues	16,440,513
Operating Expenses	14,112,234
Net Operating Income Before Taxes	2,328,279
Less: Annualized Interest Expense	1,779,510
Taxable Income - State	548,769
State Income Tax %	5.0%
State Income Taxes	27,438
Less: State Income Taxes Per Book	254,210
<b>Adjustment to State Income Taxes</b>	<b>(226,772)</b>
Taxable Income - Federal	521,331
Federal Income Taxes %	21.0%
Federal Income Taxes	109,480
Less: Federal Income Taxes Per Book	1,790,368
<b>Adjustment to Federal Income Taxes</b>	<b>(1,680,888)</b>
<b>Total Adjustment to Income Taxes</b>	<b>(1,907,660)</b>

**After Applicant's Proposed Increase**

	\$ Wastewater Operations
Operating Revenues	27,147,980
Operating Expenses	14,436,046
Net Operating Income Before Taxes	12,711,934
Less: Annualized Interest Expense	1,779,510
Taxable Income - State	10,932,424
State Income Tax %	5.0%
State Income Taxes	546,621
Less: State Income Taxes As Adjusted	27,438
<b>Adjustment to State Income Taxes</b>	<b>519,183</b>
Taxable Income - Federal	10,385,803
Federal Income Taxes %	21.0%
Federal Income Taxes	2,181,019
Less: Federal Income Taxes As Adjusted	109,480
<b>Adjustment to Federal Income Taxes</b>	<b>2,071,539</b>
<b>Total Adjustment to Income Taxes</b>	<b>2,590,722</b>

Palmetto Utilities, Inc. Docket No. 2017-228-S  
 Computation of Interest Expense  
 For the Test Year Ended March 31, 2017

Audit Surrebuttal Exhibit ALB-5

Sewer Operations

Description		Capital Structure	Ratio		Application Per Books				After Accounting and Proforma Adjustments				After Applicant's Proposed Increase			
					Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$	61,615,084	45.00%	\$	12,674,993	4.84%	2.18%	\$ 613,470	\$ 36,766,733	4.84%	2.18%	\$ 1,779,510	\$ 36,766,733	4.84%	2.18%	\$ 1,779,510
Members' Equity		75,307,325	55.00%		15,491,659	24.31%	13.37%	3,765,890	44,937,118	-2.95%	-1.62%	(1,325,992)	44,937,118	14.72%	8.10%	6,615,115
Totals	\$	136,922,409	100.00%	\$	28,166,652		15.55%	\$ 4,379,360	\$ 81,703,851		0.56%	\$ 453,518	\$ 81,703,851		10.28%	\$ 8,394,625

	Application Per Books	Accounting & Pro Forma Adjustments	After Accounting & Pro Forma Adjustments	Proposed Increase	After Proposed Increase
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	107,908,933	39,598,134	147,507,067	-	147,507,067
Accumulated Depreciation	(44,056,377)	11,127,237	(32,929,140)	-	(32,929,140)
Net Plant in Service	63,852,556	50,725,371	114,577,927	-	114,577,927
Contributions in Aid of Construction	(54,231,951)	643,359	(53,588,592)	-	(53,588,592)
Accumulated Amortization of CIAC	20,512,111	1,280,117	21,792,228	-	21,792,228
Accumulated Deferred Income Taxes	(2,705,309)	647,767	(2,057,542)	-	(2,057,542)
Working Capital	739,245	240,585	979,830	-	979,830
<u>Total Rate Base</u>	28,166,652	53,537,199	81,703,851	-	81,703,851

<u>Interest Expense</u>	<u>Sewer</u>
Per Books	2,145,274
After Accounting & Proforma Adjustments	1,779,510
ORS Adjustment #8	(365,764)
After Accounting & Proforma Adjustments	1,779,510
After Proposed Increase	1,779,510
Adjustment	0